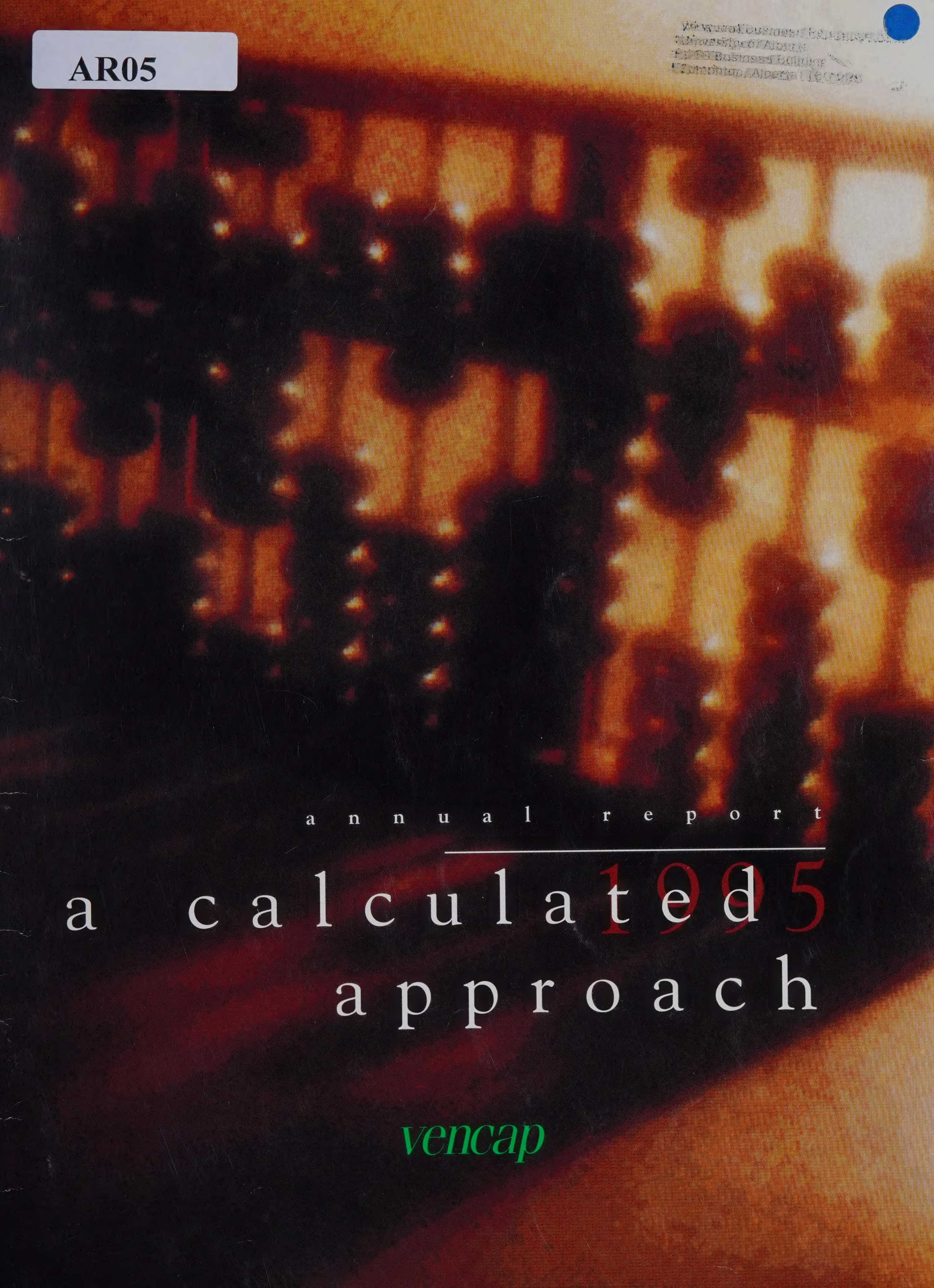


annual report

# a calculated approach

1995

vencap

# profile

*Vencap is a value-added private equity investor, operating in western Canada, the Pacific Northwest and the Rocky Mountain region of the United States. Vencap purchases significant and influential equity interests in selected high-growth companies, builds these companies to positions of market leadership and generates a return on investment either through profitable exit or by generating ongoing sustainable income.*

*annual general meeting*
*10:00 a.m., Wednesday, September 27, 1995*
*at The Metropolitan Centre*
*333 - 4th Avenue S.W., Calgary, Alberta*

# contents

## a calculated approach:

*We direct larger investments of capital toward a select number of new opportunities in order to focus our efforts and leverage our capital and time to optimum use and return.*

**buy:** We pursue middle-market investment opportunities in businesses positioned for growth and expansion. We identify opportunities within targetted industries along a defined geographic corridor and place our capital according to specific investment criteria. We seek a favourable balance between risk profile and reward potential.

**build:** Vencap is a builder of businesses, dedicated to the value-added approach to venture capital. We structure deals that serve and satisfy entrepreneurial vision and that align our mutual interests toward building successful, profitable businesses.

**profit:** We develop optimal profit strategies unique to each company and situation in order to ensure a significant rate of return for our shareholders. Vencap is a long-term investor, generating ongoing profits over time from those investments where a continued investment position produces a running yield and continued return on investment. We generate capital gains on exit from investments where maximum value can be realized in the marketplace.

# venture capital investments

| Name of Company | Description | Fiscal Year First Invested | Head Office Location | Balance March 31/94 |
|---|---|---|---|---|
| **Diversified Industrial, Manufacturing and Service** | | | | |
| Albchem Industries Ltd. | Sodium chlorate. | 1990 | Alberta | 11,548 |
| AMPTECH Corporation | Precision injection-molded plastics. | 1987 | Alberta | 4,425 |
| Bulwark Protective Apparel Inc. | Fire-resistant & other protective apparel. | 1991 | Alberta | 2,100 |
| Camelot Superabsorbents Inc. | Superabsorbent fiber products. | 1994 | Alberta | 857 |
| Central Western Railway Holdings Corp. | Short-line industrial railway. | 1992 | Alberta | 1,000 |
| The Churchill Corporation * | Diversified construction company. | 1987 | Alberta | 14,000 |
| Coinstar, Inc. | Self-service coin counting & coupon dispensing machines. | 1995 | Washington | 0 |
| Crystalline Materials Corporation | Advanced materials products. | 1993 | California | 2,575 |
| Fletcher's Fine Foods Ltd. | Hog slaughtering, processing, marketing & distribution. | 1995 | British Columbia | 0 |
| The Forzani Group Ltd. * | Retail sport/leisure clothing & equipment. | 1991 | Alberta | 3,500 |
| Great Canadian Railtour Company Ltd. | Operator of Rocky Mountain Railtour vacation train. | 1991 | British Columbia | 3,876 |
| Intercane World Corporation Ltd. | Sugarcane processing equipment. | 1987 | Alberta | 4,000 |
| K-Bro Linen Systems Inc. | Laundry services, primarily health-care related. | 1990 | Alberta | 3,225 |
| Lakeside Farm Industries Ltd. | Meat packing & integrated agribusiness. | 1986 | Alberta | 12,750 |
| Mark's Work Wearhouse Ltd. * | Retailer of work & casual apparel. | 1992 | Alberta | 4,292 |
| Medicine Shoppe Canada, Inc. | Canadian chain of retail drug outlets. | 1992 | Alberta | 1,425 |
| Monarch Communications Inc. | Radio, TV & cable stations. | 1991 | Alberta | 5,582 |
| Mountain Minerals Co. Ltd. * | Industrial minerals mining & processing. | 1994 | Alberta | 903 |
| Nascor Incorporated | Energy-efficient building structures. | 1986 | Alberta | 1,500 |
| Pacific Linen Inc. | North American chain of quality bedroom, bath & table linens. | 1993 | Washington | 4,738 |
| PTI Group Inc. | Food services, camp facilities & oilfield supply. | 1984 | Alberta | 5,212 |
| Resort Marketing Group L.P. | Banff Rocky Mountain Resort managing partner. | 1986 | Alberta | 170 |
| Taro Industries Limited * | Oilfield equipment & products. | 1994 | Alberta | 4,801 |
| | | | | 92,479 |
| Net write-up of (allowance against) Diversified Industrial, Manufacturing and Service Ventures | | | | (5,227) |
| Total Diversified Industrial, Manufacturing and Service Ventures | | | | 87,252 |
| **Technology** | | | | |
| Applied Microsystems Corporation | Computer emulation hardware & software. | 1992 | Washington | 4,131 |
| BIOSTAR, Inc. | Vaccines for animal health industry. | 1994 | Saskatchewan | 584 |
| BIOSYS * | Biological pesticides. | 1988 | California | 2,354 |
| Cholestech Corporation * | Pharmaceutical & diagnostic medical products. | 1991 | California | 1,459 |
| The ESYS Corporation | Electronic messaging software. | 1995 | Alberta | 0 |
| Medwave, Inc. | Medical electronic measurement devices. | 1992 | Minnesota | 287 |
| Nextwave Design Automation, Inc. | Electronic design automation software. | 1995 | California | 0 |
| Oncogenetics, Inc. | Testing services relating to the genetic basis of cancer. | 1993 | Arizona | 1,334 |
| OncoTherapeutics, Inc. | Development of cancer therapeutics & diagnostics. | 1993 | New Jersey | 2,394 |
| OrthoLogic Corp * | Electrostimulation medical devices. | 1989 | Arizona | 2,029 |
| PRIZM Pharmaceuticals, Inc. | Therapeutic medical products. | 1994 | California | 1,986 |
| Redwood Microsystems, Inc. | Micro-machined valves. | 1994 | California | 1,934 |
| SangStat Medical Corporation * | Diagnostic & therapeutic medical products. | 1992 | California | 2,226 |
| Thermatrix Inc. | Environmental thermal oxidation equipment. | 1995 | California | 0 |
| | | | | 20,718 |
| Net write-up of (allowance against) Technology Ventures | | | | 1,227 |
| Total Technology Ventures | | | | 21,945 |
| **Special Situations** - Venture Capital Investments | | | | |
| Centennial Fund IV | Telecommunications & technology venture capital fund. | 1994 | Colorado | 200 |
| Newtek Ventures II | Technology venture capital fund. | 1991 | California | 2,546 |
| Olympic Venture Partners III | Medical, communications & software venture capital fund. | 1995 | Washington | 0 |
| Pathfinder Venture Capital Fund III | Medical & electronics venture capital fund. | 1990 | Minnesota | 1,600 |
| | | | | 4,346 |
| Net write-up of (allowance against) Special Situations | | | | 0 |
| Total Special Situations | | | | 4,346 |
| Total Venture Portfolio Balance | | | | 113,543 |

* Publicly traded company

New Investment and/or Follow On Investment during fiscal 1995

▲ Corresponds to Balance Sheet (1994)

# publicly traded portfolio

Publicly traded companies in venture portfolio
(Canadian dollars unless otherwise indicated)

At March 31, 1995

| Company/ Trading Symbol | Stock Exchange | Average Cost per Share | IPO Price/ Date | Shares held by Vencap 3/31/95 | Market Price 3/31/95 | Number of Shares Outstanding |
|---|---|---|---|---|---|---|
| BIOSYS/ BIOS | NASDAQ | $5.51 U.S. | $12.00 U.S. March 1992 | 213,563 | $2.25 U.S. | 11,728,194 |
| The Churchill Corporation/ CUQ | Alberta Stock Exchange | $0.51 | December 1987 | 8,865,846 | $0.09 | 17,731,920 |
| The Forzani Group Ltd./FGL | Toronto Stock Exchange | $4.00 | $5.88 August 1993 | 875,000 | $7.50 | 7,591,250 |
| Mark's Work Wearhouse Ltd./MWW | Toronto Stock Exchange | $0.94 | Public at time of investment | 4,556,824 | $1.65 | 23,187,000 |
| Mountain Minerals Co. Ltd./MIM | Toronto Stock Exchange | $0.86 | Public at time of investment | 1,055,884 | $0.39 | 45,271,589 |
| OrthoLogic Corp/OLGC | NASDAQ | $3.31 U.S. | $6.50 U.S. January 1993 | 498,370 | $5.00 U.S. | 7,489,491 |
| SangStat Medical Corporation/ SANG | NASDAQ | $4.33 U.S. | $7.00 U.S. December 1993 | 755,637 | $6.375 U.S. | 9,484,591 |
| Taro Industries Limited/TIN | Toronto Stock Exchange | $0.84 | Public at time of investment | 5,490,532 | $0.53 | 57,773,017 |

Venture investments that are publicly traded and have quoted market values are carried on Vencap's balance sheet at cost, with an adjustment for each company's value at March 31, 1995, reflected in the write-up for Net Unrealized Gains (Losses).

# affiliate company revenues

| | | |
|---|---|---|
| Diversified Industrial, Manufacturing and Services | $ | 1,255,891,000 |
| Technology | | 44,617,000 |
| Special Situations | | 328,000 |
| Total | $ | 1,300,836,000 |

Companies in Vencap's current venture portfolio recorded annual revenues totalling $1.3 billion. Vencap would rank in the top 50 companies in Canada on the basis of these combined revenues.

# activity during fiscal 1995 (thousands)

| Additional Investment During Fiscal 1995 | | Dispositions During Fiscal 1995 | | | Decrease (Increase) in Allowance for Net Unrealized Gains (Losses) | Balance March 31/95 | Gains (Losses) on Dispositions During Year | Interest & Dividend Income During Year | Additional Commitments Approved but Not Closed |
|---|---|---|---|---|---|---|---|---|---|
| New | Follow On | Sale | Return of Capital | Permanent Impairment | | | | | |
| 0 | 0 | 0 | (2,048) | 0 | | 9,500 | | | |
| 0 | 1,074 | 0 | 0 | 0 | | 5,499 | | | |
| 0 | 400 | 0 | 0 | 0 | | 2,500 | | | |
| 0 | 775 | 0 | 0 | 0 | | 1,632 | | | 350 |
| 0 | 0 | 0 | 0 | 0 | | 1,000 | | | |
| 0 | 0 | 0 | 0 | (4,542) | | 9,458 | | | |
| 3,156 | 0 | 0 | 0 | 0 | | 3,156 | | | |
| 0 | 0 | 0 | 0 | 0 | | 2,575 | | | 140 |
| 3,870 | 0 | 0 | 0 | 0 | | 3,870 | | | 5,989 |
| 0 | 0 | 0 | 0 | 0 | | 3,500 | | | |
| 0 | 149 | (1) | 0 | 0 | | 4,024 | | | |
| 0 | 0 | 0 | 0 | (3,000) | | 1,000 | | | |
| 0 | 0 | 0 | 0 | 0 | | 3,225 | | | |
| 0 | 0 | (12,750) | 0 | 0 | | 0 | 7,431 | | |
| 0 | 0 | 0 | 0 | 0 | | 4,292 | | | |
| 0 | 50 | 0 | 0 | (1,000) | | 475 | | | |
| 0 | 0 | 0 | 0 | 0 | | 5,582 | | | |
| 0 | 0 | 0 | 0 | 0 | | 903 | | | |
| 0 | 6 | 0 | 0 | 0 | | 1,506 | | | |
| 0 | 1,541 | 0 | 0 | 0 | | 6,279 | | | |
| 0 | 0 | 0 | 0 | 0 | | 5,212 | | | |
| 0 | 0 | (151) | (19) | 0 | | 0 | | | |
| 0 | 0 | 0 | (69) | 0 | | 4,732 | | | |
| | | | | | | 79,920 | | | |
| | | | | | 1,714 | (3,513) | | | |
| 7,026 | 3,995 | (12,902) | (2,136) | (8,542) | 1,714 | 76,407 | | 2,101 | |
| 0 | 0 | 0 | 0 | 0 | | 4,131 | | | |
| 0 | 265 | 0 | 0 | 0 | | 849 | | | 851 |
| 0 | 0 | (930) | 0 | 0 | | 1,424 | (327) | | |
| 0 | 0 | (1,459) | 0 | 0 | | 0 | (758) | | |
| 500 | 0 | 0 | 0 | 0 | | 500 | | | 500 |
| 0 | 0 | 0 | 0 | 0 | | 287 | | | |
| 2,109 | 0 | 0 | 0 | 0 | | 2,109 | | | |
| 0 | 1,523 | 0 | 0 | (2,857) | | 0 | | | |
| 0 | 667 | 0 | 0 | 0 | | 3,061 | | | 421 |
| 0 | 0 | (30) | 0 | 0 | | 1,999 | 23 | | |
| 0 | 0 | 0 | 0 | 0 | | 1,986 | | | |
| 0 | 842 | 0 | 0 | 0 | | 2,776 | | | |
| 0 | 2,092 | 0 | (13) | 0 | | 4,305 | | | 699 |
| 4,102 | 0 | 0 | 0 | 0 | | 4,102 | | | |
| | | | | | | 27,529 | | | |
| | | | | | (1,714) | (487) | | | |
| 6,711 | 5,389 | (2,419) | (13) | (2,857) | (1,714) | 27,042 | | 12 | |
| 0 | 840 | 0 | 0 | 0 | | 1,040 | | | 3,148 |
| 0 | 145 | 0 | 0 | 0 | | 2,691 | | | 860 |
| 416 | 0 | 0 | 0 | 0 | | 416 | | | 2,378 |
| 0 | 277 | 0 | (205) | 0 | | 1,672 | | | 560 |
| | | | | | | 5,819 | | | |
| | | | | | 0 | 0 | | | |
| 416 | 1,262 | 0 | (205) | 0 | 0 | 5,819 | | 0 | |
| 14,153 | 10,646 | (15,321) | (2,354) | (11,399) | 0 | 109,268 | 6,369 | 2,113 | 15,896 |

▲ ▲ ▲ ▲ Correspond to Note 3

▲ Corresponds to Statement of Income, Statement of Changes in Financial Position and Note 3

▲ Corresponds to Balance Sheet (1995)

▲ Corresponds to Statement of Income

▲ Corresponds to Statement of Income

▲ Total dividend & interest income from all venture investments since 1983 is $30.7 million

# venture investment portfolio analysis

## Venture investment portfolio by sector

**Diversified/Industrial - 21 companies**

| | | | |
|---|---|---|---|
| 5 | Publicly traded | $ 22,885,000 | |
| 16 | Private | 57,035,000 | |
| | | $ 79,920,000 | - 70.6% of portfolio |

**Technology - 12 companies**

| | | | |
|---|---|---|---|
| 3 | Publicly traded | $ 7,728,000 | |
| 9 | Private | 19,801,000 | |
| | | $ 27,529,000 | - 24.3% of portfolio |

**Special Situations - 4 companies**

| | | | |
|---|---|---|---|
| 4 | Venture Capital Investments | $ 5,819,000 | |
| | | $ 5,819,000 | - 5.1% of portfolio |

Diversified/Industrial 70.6%
Technology 24.3%
Special Situations 5.1%

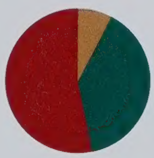
**Total - 37 companies**

| | | | |
|---|---|---|---|
| 8 | Publicly traded | $ 30,613,000 | - 27.0% of portfolio |
| 16 | Private - Diversified | 57,035,000 | - 50.4% of portfolio |
| 9 | Private - Technology | 19,801,000 | - 17.5% of portfolio |
| 4 | Special Situations | 5,819,000 | - 5.1% of portfolio |
| | | $113,268,000 | - 100% of portfolio |

Publicly traded 27.0%
Private - Diversified 50.4%
Private - Technology 17.5%
Special Situations 5.1%

**Geography**

| | | | |
|---|---|---|---|
| 17 | Alberta | $ 60,516,000 | - 53.4% of portfolio |
| 3 | Rest of western Canada | 8,743,000 | - 7.7% of portfolio |
| 17 | United States | 44,009,000 | - 38.9% of portfolio |
| | | $113,268,000 | - 100% of portfolio |



Alberta 53.4%
Rest of western Canada 7.7%
United States 38.9%

## Total venture investments

| Investments & Commitments | Since Fiscal 1984* | Fiscal 1995 |
|---|---|---|
| New Investment | $160,500,000 | $14,200,000 |
| Follow On Investments | 105,200,000 | 10,600,000 |
| Commitments | 15,900,000 | 15,900,000 |
| Total | $281,600,000 | $40,700,000 |

*includes fiscal 1995

# operations review

## new investments

During fiscal 1995, Vencap invested $14,153,000 in six new investments. Five of the new investments are in the expansion stage of their business development, where strong market niche opportunities contributed to Vencap's investment decisions. All have the ability and potential to serve international customers.

**Coinstar, Inc. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $3,156,000**

Coinstar is the developer, manufacturer and operator of self-service coin counting and coupon dispensing machines, located primarily in supermarkets. These machines allow customers who have accumulated coinage to exchange it for cash vouchers and free discount coupons for products on sale at that store. Market roll-out is occurring in the States of Washington, California and North Carolina.

**The ESYS Corporation . . . . . . . . . . . . . . . . . . . . . . . . . $500,000**

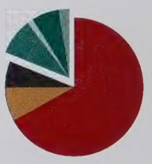
ESYS is an Edmonton-based developer and marketer of Internet-based e-mail software. ESYS products are designed to meet the communication requirements of large organizations operating on a global basis and for whom the Internet is the backbone of their internal communications. ESYS products are utilized by universities, government agencies and multi-national corporations.

**Nextwave Design Automation, Inc. . . . . . . . . . . . . . . . $2,109,000**

Nextwave is a developer, marketer and supporter of Electronic Design Automation (EDA) software, which is utilized by design engineers of Application Specific Integrated Circuit (ASIC) silicon chips. ASIC chips are employed in numerous products and applications, including personal computers and workstations, telecommunications equipment, networks and distributed computing applications, and computer peripherals.

**Thermatrix, Inc. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $4,102,000**

Thermatrix manufactures and sells specialized equipment for destroying certain forms of air and water pollutants inherent to the petroleum refining, pharmaceutical and organic chemical industries. These pollutants are subject to new regulation and enforcement standards in jurisdictions throughout North America. Thermatrix's patented technology for destroying these pollutants is at the leading edge of current environmental performance.



| | |
|---|---|
| Gross Venture Portfolio (1994) | $117.5 |
| New Venture Investments | 14.2 |
| Follow On Investments | 10.6 |
| Sold | (15.3) |
| Capital Returned | (2.4) |
| Impaired | (11.3) |
| Allowance | (4.0) |
| Net Venture Portfolio (1995) | $109.3 |

(Millions)

**Venture investments**

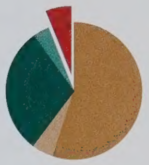
| | Number of Companies |
|---|---|
| March 31, 1994 | 35 |
| New Investments | 6 |
| Full Dispositions | (3) |
| Full Permanent Impairments | (1) |
| March 31, 1995 | 37 |

**Fletcher's Fine Foods Ltd.** . . . . . . . . . . . . . . . . . . . . . . . . **$3,870,000**

Fletcher's is an international marketer of fresh and processed pork products. On March 24, 1995, Vencap closed into escrow for $3.9 million of a potential $10 million investment. This investment strengthens Fletcher's balance sheet and facilitates the transfer of Fletcher's shares from the Alberta Pork Producers Development Corporation (APPDC) to approximately 4,000 Alberta pork producers. In addition, the investment provides the initial capital for a $38 million, five-year capital expansion program which will see capacity at the company's Red Deer hog processing plant double to 40,000 head per week. Fletcher's is positioning itself to be a world leader in its industry.

**Olympic Venture Partners III** . . . . . . . . . . . . . . . . . . . . **$416,000**

This early stage venture capital partnership specializes in technology, communications and software and is the dominant technology fund resident in the U.S. Pacific Northwest. Olympic has offices in Seattle and Portland. An additional commitment of $2,378,000 has been approved but not as yet advanced.




## follow on investments

Follow on funds totalling $10,646,000 were invested in 15 companies during fiscal 1995. Follow on investments are made in companies in which Vencap is already an investor and are typically provided to finance growth and expansion as competitive advantage and market position are confirmed, and as those companies' ability to expand operations and demonstrate increased profit potential have been proven.

Follow on rounds of equity also enable companies to take advantage of opportunities presented by an uncertain economy, by acquiring or merging with competitors or purchasing capital equipment at reduced prices. In some cases, follow on capital is required to enable a company to withstand economic downturns but is only advanced when the fundamental integrity and operating potential of a company has not been compromised.

Follow on funds advanced to venture funds in which Vencap is involved were part of the regular calls for capital that occur with venture fund investments. The details of all follow on transactions are contained in the venture portfolio spreadsheet, pages 4 and 5.

## dispositions

During fiscal 1995, one complete disposition of an investment occurred. The sale of Lakeside Farm Industries Ltd. realized total proceeds to Vencap of $20,181,000, for a gain of $7,431,000 and an over-all annualized rate of return of 11.1%. During the course of Vencap's investment in Lakeside, dividend income of $3,217,000 had been earned.

Partial dispositions occurred during the fiscal year where Vencap sold a portion of its investment in three publicly traded companies as trading restrictions on those companies' stock expired. All three companies had recent initial public offerings on the NASDAQ exchange and were subject to the stock lock-up provisions that exist for newly public companies. A net loss on disposition of $1,062,000 was recorded.

Two other sales, totalling $152,000, occurred during fiscal 1995 where Vencap sold a portion of its position to other investors. Also during the year, five companies in which Vencap is an investor returned capital totalling $2,354,000. Return of capital results from scheduled or accelerated retirement of preferred shares or debt.

Details of all disposition transactions are contained in the venture portfolio spreadsheet, page 5.

Management recorded permanent impairments against four companies during fiscal 1995 totalling $11,399,000. One of the four, Oncogenetics, represents a full impairment against the investment; the remaining three represent impairment of only that portion of the investment which is seen as having no value.

| | |
|---|---|
| **The Churchill Corporation** | **$4,542,000** |
| **Intercane World Corporation Ltd.** | **$3,000,000** |
| **Medicine Shoppe Canada, Inc.** | **$1,000,000** |
| **Oncogenetics, Inc.** | **$2,857,000** |

Private-company investments are accounted for on a conservative basis, as described in Note 1 to the financial statements. At year-end 1995, the net allowance Vencap provided against the venture portfolio was $4,000,000, unchanged from year-end 1994.

The allowance provided by Vencap against companies within the venture portfolio is reflected on the spreadsheet, pages 4 and 5. Vencap does not disclose the amounts of allowance by individual company. This could be detrimental to a company's ability to operate in its industry and/or marketplace and could also undermine the confidence of a company's customers, suppliers and bankers.

Since 1983, Vencap has generated a return to its stakeholders of $172.0 million.

- $64.6 million interest paid on loan from Province of Alberta
- $51.0 million dividends and debenture interest paid to shareholders and debenture holders
- $56.4 million income earned and accumulated on shareholders' behalf

During fiscal 1995, proceeds were realized from the full and partial dispositions of investments in six companies. Total proceeds were $21.7 million, with a net gain of $6.4 million. A further $2.1 million was earned in dividend and interest income from companies in which Vencap has invested. Permanent impairments totalling $11.4 million were recorded against four companies in the venture portfolio.

## investment strategy:

middle-market investment opportunities as defined by

Stage of Development

Size of Investment

Vencap's primary target market for deploying new investment capital is defined as the private equity middle market.

Stage of Development Vencap targets companies with sustainable revenues and profits, or companies with the prospect of generating sustainable income within a reasonably short-term timeframe of 18 months.

Size of Investment Vencap invests, primarily, in companies in which there is the potential to place at least $3 million, with a preference toward investments in the range of $5 million to $10 million, and which offer the potential to achieve an attractive rate of return commensurate with the risk of private equity investment.

*buy*

## investment practices:

the placement of new investment funds is made in targetted industries within a defined geographic corridor, according to very specific, focussed investment criteria.

Industry Type and Geographic Location Among the most highly profitable investments Vencap has experienced are middle market companies serving diversified industrial, manufacturing and product markets. This middle-market private equity environment continues to be underserved, which presents Vencap with both the quality and the quantity of deal flow opportunities we desire.

Historically, investments of a pure technology orientation represent the largest risk for private equity funds. In prior years, Vencap has managed portfolio risk by building a venture portfolio which reflects a balanced approach and which is not overly vulnerable to the uncertainties and difficulties associated with investments in developing technologies.

Almost three-quarters of our invested capital is at work in 21 companies engaged in mature, diversified industries. Less than one-quarter of our invested funds is placed in technology-focussed enterprises where the viability of a concept or product is still to be proven.

Accordingly, Vencap seldom invests in start up situations with longer-term technology, product research and development requirements. Vencap's proven business-building, value-added competence has been traditionally most successful when involved with companies of a critical mass with which to work to help achieve market dominance, shareholder value, cash flow performance and/or routes to liquidity.

$14.2 million new investments fiscal 1995

■ $160.5 million total new investments since 1983

Total $265.7 million new and follow on investments since 1983

Vencap applies a disciplined approach to evaluating new investments. Specific criteria set out the basic elements by which each deal will initially be measured and evaluated:

> competitive advantage of the product or service and its ability to establish a position of market leadership

> financial forecasts, including revenue, income and cash flow generation

> valuation

> size of investment, total financial requirements and deal structure

> time and anticipated mechanisms for achieving liquidity or ongoing running yield

> current or potential involvement of other private or corporate investors

> Vencap's ability to exercise significant influence at the strategic and operating levels

> entrepreneur and/or management team in which Vencap is investing

Geographically, Vencap's investment activity focusses exclusively on the North American corridor embracing the western Canadian provinces of Alberta, British Columbia and Saskatchewan, and the northwestern United States regions of Washington, Idaho, Utah, Oregon and Colorado.

This North American corridor is experiencing strong business growth, market expansion and significant entrepreneurial activity. The absence of substantial private equity funds within this geographic region creates a market opportunity for Vencap.

Companies within the private equity middle market must have the potential to be market leaders in their fields of endeavor. Vencap believes that companies with market leadership potential will be either an attractive buy-out by a larger multi-national company, a candidate to go public within a reasonable time frame, or will provide Vencap with an ongoing return on its investment by generating significant cash flows.

A company in which revenues are being generated has, by definition, also generated some degree of market validation for its product or service, has a level of management competence and has some understanding of the competitive nature of today's business environment. As well, a revenue generating company has a more manageable level of financing risk associated with cash flow generation. Lastly, a revenue generating company can more readily attract and afford quality management, a singularly important criteria within Vencap's investment parameters.

While the $3 million is a threshold for new investment, the funds may be advanced in incremental amounts over time. The staging of funds is often a part of the initial deal structure and tied to future progress against critical success factors. Our focus on investing larger amounts of capital in a fewer number of new opportunities allows us to leverage our capital and time to optimum use and return.

The size of the investment Vencap undertakes can also be impacted by the degree of ownership position we wish to acquire. Vencap's preference is to invest in situations in which it will have a significant stake in a company and be in a position to influence its strategic direction and ongoing operations. Vencap will typically pursue an ownership position in excess of 30 per cent, including acquiring control positions where circumstances warrant doing so.

At Vencap, our due diligence process employs a systematic approach to reviewing each investment decision. We will retain technical, marketing, financial and legal expertise to ensure a complete assessment. Extensive due diligence continues throughout the entire term of deliberation, negotiation and decision-making prior to committing investment funds.

Once an initial investment has been made, Vencap's efforts are directed toward providing business disciplines and value-added support to the companies in which we have invested. Understanding the building approach applied by Vencap to the companies in its venture portfolio requires a clear distinction between the quantitative and qualitative efforts of our value-added philosophy.

Quantitative efforts can be definitively measured by the impact of the various business disciplines Vencap imparts: efficiencies effected in financial systems and controls, productivity enhancements, and results achieved by marketing or other business strategies we assist in developing. Qualitative efforts - displayed through basic building skills, common sense and experience - are less easily monitored or measured but are as critical an element to the successful building of an enterprise as the introduction of business disciplines and processes.

Vencap creates value in its venture portfolio by adding value. We offer business knowledge about specific industries and provide our companies with key strategic and business contacts from our network base throughout North America. We assist in building quality boards of directors to assist in developing a company's strategy for growth and expansion. We anticipate the business needs and risks facing a company and provide the necessary support and assistance to manage those issues. We offer mentorship, guidance and advice.

# *build*

Vencap is a builder of businesses, dedicated to the value-added approach to venture capital. We structure deals that serve and satisfy entrepreneurial vision and that align our mutual interests toward building successful, profitable businesses.

Vencap's investment criteria enable our staff to commit the time and resources required for this value-added approach. We are able to efficiently utilize our time and focus our efforts by directing larger investments of capital toward a fewer number of new opportunities. Our ability to add value to each investment relates directly to the internal disciplines utilized and knowledge gained in the process of making new investment decisions, including:

> acquiring an indepth understanding of the product, service or technology of the company in which we are investing;

> developing an understanding of the business issues related to the industry in which that product, service or technology is operating;

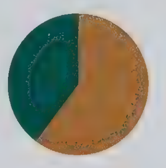
> building a strong working relationship with company management; and

> creating co-investor relationships based on mutual respect.

Among the business and investment disciplines applied to companies in Vencap's venture portfolio are specific milestones of performance. Vencap develops an investment plan for each portfolio company with formal reviews on a regular basis. Risk factors and critical issues are identified, as are strategies and actions to be implemented. The plan also updates Vencap's ongoing investment management requirements. Where an additional equity investment is anticipated, Vencap establishes the parameters by which additional equity may be committed. The investment criteria Vencap applies to its emerging technology investments, and which must be achieved before follow on funds will be considered, include time of product to market and revenue generation within an 18-month time period. Investments in mature, expansion-stage companies are intended to finance growth and expansion. Follow on investments in these companies are considered upon confirmation of competitive advantage and market positioning.

Vencap works with other sources of capital throughout Canada and the United States. Our preference is to work with co-investors who have similar fundamental beliefs, including value-added participation. Our philosophy: leverage the dollars, leverage the time, leverage the expertise. Vencap has close working relationships with many of the leading private equity investors in North America.

Vencap also pursues and forms alliances throughout the world so that companies in which we invest can access and penetrate new markets quickly and attract strategic market partners. Our geographic focus toward western Canada, the Pacific Northwest and the Rocky Mountain region of the United States has enabled us to develop some critical networks while North American trading partnerships are being formed. While considerable and intense attention has been paid over the years to bridging European and Asian markets, Vencap believes that a strong and dynamic trading corridor in the western hemisphere must continue to be built. The emergence of a north/south trading corridor is being experienced by companies within Vencap's venture portfolio. Vencap is able to assist their ability to do business and establish strategic trading alliances within this environment.



$10.6 million follow on investments fiscal 1995

■ $105.2 million total follow on investments since 1983

Total $265.7 million new and follow on investments since 1983

At fiscal year-end 1995, a further $15.9 million in additional follow on commitments had been approved.

Once an initial investment has been made, Vencap's efforts are directed toward providing business disciplines and value-added support to the companies in which we have invested. Understanding the building approach applied by Vencap to the companies in its venture portfolio requires a clear distinction between the quantitative and qualitative efforts of our value-added philosophy.

Quantitative efforts can be definitively measured by the impact of the various business disciplines Vencap imparts: efficiencies effected in financial systems and controls, productivity enhancements, and results achieved by marketing or other business strategies we assist in developing. Qualitative efforts - displayed through basic building skills, common sense and experience - are less easily monitored or measured but are as critical an element to the successful building of an enterprise as the introduction of business disciplines and processes.

Vencap creates value in its venture portfolio by adding value. We offer business knowledge about specific industries and provide our companies with key strategic and business contacts from our network base throughout North America. We assist in building quality boards of directors to assist in developing a company's strategy for growth and expansion. We anticipate the business needs and risks facing a company and provide the necessary support and assistance to manage those issues. We offer mentorship, guidance and advice.

*build*

Vencap is a builder of businesses, dedicated to the value-added approach to venture capital. We structure deals that serve and satisfy entrepreneurial vision and that align our mutual interests toward building successful, profitable businesses.

Vencap's investment criteria enable our staff to commit the time and resources required for this value-added approach. We are able to efficiently utilize our time and focus our efforts by directing larger investments of capital toward a fewer number of new opportunities. Our ability to add value to each investment relates directly to the internal disciplines utilized and knowledge gained in the process of making new investment decisions, including:

> acquiring an indepth understanding of the product, service or technology of the company in which we are investing;

> developing an understanding of the business issues related to the industry in which that product, service or technology is operating;

> building a strong working relationship with company management; and

> creating co-investor relationships based on mutual respect.

Among the business and investment disciplines applied to companies in Vencap's venture portfolio are specific milestones of performance. Vencap develops an investment plan for each portfolio company with formal reviews on a regular basis. Risk factors and critical issues are identified, as are strategies and actions to be implemented. The plan also updates Vencap's ongoing investment management requirements. Where an additional equity investment is anticipated, Vencap establishes the parameters by which additional equity may be committed. The investment criteria Vencap applies to its emerging technology investments, and which must be achieved before follow on funds will be considered, include time of product to market and revenue generation within an 18-month time period. Investments in mature, expansion-stage companies are intended to finance growth and expansion. Follow on investments in these companies are considered upon confirmation of competitive advantage and market positioning.

Vencap works with other sources of capital throughout Canada and the United States. Our preference is to work with co-investors who have similar fundamental beliefs, including value-added participation. Our philosophy: leverage the dollars, leverage the time, leverage the expertise. Vencap has close working relationships with many of the leading private equity investors in North America.

$10.6 million follow on investments fiscal 1995

■ $105.2 million total follow on investments since 1983

Total $265.7 million new and follow on investments since 1983

At fiscal year-end 1995, a further $15.9 million in additional follow on commitments had been approved.

Vencap also pursues and forms alliances throughout the world so that companies in which we invest can access and penetrate new markets quickly and attract strategic market partners. Our geographic focus toward western Canada, the Pacific Northwest and the Rocky Mountain region of the United States has enabled us to develop some critical networks while North American trading partnerships are being formed. While considerable and intense attention has been paid over the years to bridging European and Asian markets, Vencap believes that a strong and dynamic trading corridor in the western hemisphere must continue to be built. The emergence of a north/south trading corridor is being experienced by companies within Vencap's venture portfolio. Vencap is able to assist their ability to do business and establish strategic trading alliances within this environment.

Investing wisely and building well are the precursors to Vencap's core business objective — to create exceptional shareholder value. Our efforts at aggressively seeking out, investing in and adding value to business opportunities of outstanding growth potential are the mechanisms by which we undertake to serve that objective.

Vencap's profit is achieved from either gains on exit or from income earned during the course of our investment in a company. We realize that a unique and optimal profit strategy exists for each company. A discipline within Vencap's portfolio management practice is identifying the most likely route to maximize liquidity for each specific investment.

Vencap is a long-term, patient investor. We will continue our involvement with a company until its full potential is recognized in the value applied by external markets.

Running Yield on Investment There are companies in Vencap's venture portfolio for which market valuations are not attractive enough to cause us to fully divest of our position. We continue to hold our position and realize a return on an ongoing basis, primarily in the form of dividends or interest.

We identify a unique and optimal profit strategy for each company in order to ensure a significant rate of return for our shareholders. Vencap is a long-term investor, generating ongoing profits over time from those investments where a continued investment position produces a running yield and continued return on investment. We generate gains on exit from investments where maximum value can be realized in the marketplace.

# profit

In Vencap's current venture portfolio, this running yield on investment is typically found in companies within the diversified industrial, manufacturing and service sector. These companies are typically mature organizations in which we have invested to finance growth and expansion. These companies generate significant cash flow in excess of their attractive reinvestment opportunities, which allows them to return a portion to the investors. Ultimately, these companies may also be among those which could be exited by an initial public offering or sale to a multi-national or international acquisitor.

Identification of potential routes to liquidity, as well as the probabilities and difficulties of attaining liquidity, is ongoing for all companies within Vencap's venture portfolio. Part of our portfolio management approach has been to build a core portfolio of investments from which a stable base of ongoing returns can be generated in the absence, over a period of time, of gains achieved from exits.

Gains on Exit Vencap realizes gains on investments through one of two routes — a private sale to a third party, or a public market transaction.

*Private sale of an investment to a third party, usually one with multi-national or international operations, which has identified a company in Vencap's portfolio as providing geographic or product entry into a specific market.* The sale of Lakeside Farm Industries Ltd. to IBP, inc. of Nebraska during fiscal 1995 exemplifies this route to liquidity. The sale of Lakeside realized total proceeds of $20,181,000 for a gain to Vencap of $7,431,000 and an over-all annualized rate of return of 11.1 per cent. During the course of Vencap's investment in Lakeside, dividend income of $3,217,000 had been earned.

*Initial public offering (IPO) on a recognized stock exchange, normally is undertaken to raise additional equity based on the financial performance achieved by the company and its potential for future growth.* Vencap is positioned to sell its ownership position as soon as allowed by the applicable securities commission although an immediate sale of our securities will not be undertaken if we believe the company is undervalued in the market. The Forzani Group Ltd. exemplifies this route to liquidity. Vencap acquired its position in Forzani for $4.00 per share. The company went public on The Toronto Stock Exchange in 1993 at $5.88 per share and is currently trading in the $8.00 to $10.00 range. Vencap believes that unrealized value exists in the Forzani operation that has not yet been recognized in the market. Despite the potential for liquidity that exists, we will not divest of our position in a company before maximum return can be achieved.

No companies in Vencap's venture portfolio undertook IPOs during fiscal 1995; five companies in Vencap's venture portfolio have gone public during the course of our investment in them. We continually monitor and evaluate the appropriateness of IPO strategies for companies in the venture portfolio. The management and operating disciplines that Vencap brings to its investments assist them in preparing and positioning for the public market environment. The NASDAQ exchange in the United States currently offers the best opportunity for companies to go public given the potential for larger shareholder bases from which to attract capital and the higher multiples that exist in the U.S. for successful companies.

*Public market transactions of an investment already traded on a stock exchange will occur when the trading price of shares increases significantly beyond the price initially paid by Vencap and all escrow provisions have been met.* Not all companies are successful in the IPO after-market and it is not unusual for newly listed companies to trade below their IPO price in the short term. In situations where Vencap believes that a company's stock performance reflects a significant downturn due to fundamental weakness in the company's product or technology, Vencap will effect a sale of its securities in order to recover the cost of its investment. Vencap actively monitors the market activity of its publicly traded companies. Public companies in the medical technology industry have been particularly hard hit in recent months. During fiscal 1995, Vencap determined that the sale of its position in Cholestech Corporation was appropriate given the current and foreseeable situation of that particular industry.

The culmination of the investment cycle is the realization of profit. Realizing maximum profit begins with a disciplined approach utilizing well-defined investment criteria, is enhanced through our ability to add value over the term of the investment, and concludes with our identification and execution of each unique divestiture strategy.

The process is ongoing. When we have done all of this, we will have created exceptional shareholder value.

## Balance Sheet Highlights

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | 266.8 | 271.2 | 279.0 | 294.7 | 294.1 | 287.4 | 292.7 | 293.2 | 294.0 | 282.2 |
| **Marketable Securities** | 216.8 | 210.4 | 202.2 | 217.4 | 203.7 | 192.9 | 177.7 | 175.4 | 171.7 | 168.0 |
| **Venture Investments** (Carrying Value - net of allowance) | 38.2 | 50.8 | 69.9 | 71.1 | 82.5 | 87.8 | 108.0 | 112.4 | 113.5 | 109.3 |
| **Retained Earnings** | | | | | | | | | | |
| Beginning of Year | 8.9 | 16.5 | 24.8 | 32.7 | 42.1 | 48.2* | 48.6* | 52.9* | 56.4* | 56.1* |
| End of Year | 16.5 | 24.8 | 32.7 | 42.1 | 48.2* | 48.6* | 52.9* | 56.7* | 56.1* | 56.4 |
| Shareholders' Equity | 17.9 | 21.4 | 30.3 | 40.1 | 46.3* | 48.3* | 50.1* | 52.4* | 56.4* | 79.5 |
| **Net Asset Value Per Common Share** | | | | | | | | | | |
| Basic | $4.06 | $4.80 | $6.86 | $9.12 | $10.55* | $11.88* | $12.89* | $14.21* | $16.15* | $8.68 |
| Fully Diluted | $2.54 | $2.67 | $3.04 | $3.45 | $ 3.70* | $ 3.93* | $ 5.37* | $ 5.61* | $ 5.95* | $6.34 |
| **Share Price** (at March 31) | $2.05 | $1.95 | $1.65 | $2.25 | $ 2.15 | $ 2.30 | $ 3.75 | $ 3.55 | $ 5.00 | $5.75 |

** Restated (Note 9)*

# *highlights*

## Income Statement Highlights

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | | | |
| Marketable Securities | 23.8 | 22.4 | 20.3 | 17.6 | 21.3 | 19.8 | 17.2 | 16.6 | 18.7 | 11.7 |
| Venture Investments | (1.0) | 1.7 | 2.4 | 13.7 | (1.5) | (9.3) | 3.0 | 3.6 | (7.2) | (2.9) |
| **Total Revenue** (net) | 22.8 | 24.1 | 22.7 | 31.3 | 19.8 | 10.5 | 20.2 | 20.2 | 11.5 | 8.8 |
| **Expenses** | | | | | | | | | | |
| Interest on Long-term Debt (Province of Alberta loan) | 7.7 | 8.2 | 7.2 | 10.9 | 5.4* | 0.4* | 5.2* | 5.2* | 1.0* | 1.5 |
| Interest on 12% Convertible Debentures | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.7 | 4.3 | 4.0 | 4.0 | 1.0 |
| Operating and Other Expenses | 2.7 | 2.8 | 2.8 | 6.1 | 3.5* | 4.3* | 5.4* | 6.0* | 5.8* | 5.1 |
| **Total Expenses** | 15.2 | 15.8 | 14.8 | 21.8 | 13.7* | 9.4* | 14.9* | 15.2* | 10.8* | 7.6 |
| **Net Income** | 7.6 | 8.3 | 7.9 | 9.5 | 6.1* | 1.1* | 5.3* | 5.0* | 0.7* | 1.2 |
| **Earnings Per Share** | | | | | | | | | | |
| Basic | $1.73 | $1.86 | $1.80 | $2.16 | $1.39* | $0.25* | $1.30* | $1.35* | $0.20* | $0.14 |
| Fully Diluted | $0.41 | $0.45 | $0.44 | $0.48 | $0.31* | $0.09* | $0.45* | $0.46* | $0.18* | $0.12 |

**Restated (Note 9)*

# management's discussion and analysis

## Share Activity

| March 31 | 1995 | 1994 |
|---|---|---|
| High | $6.50 | $5.40 |
| Low | $3.90 | $3.55 |
| Close | $5.75 | $5.00 |
| Trading Volume | 3,476,368 | 536,548 |
| Shares Outstanding | 8,816,394 | 3,234,540 |

Share Price Performance On March 31, 1995, Vencap's common shares closed at $5.75, up 15% over the prior year's closing price of $5.00.

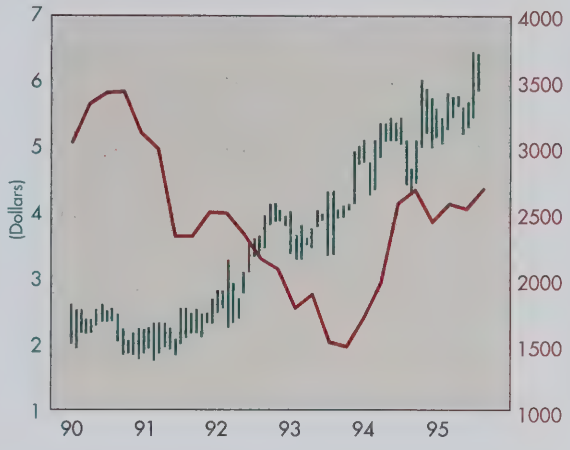
During the year, Vencap issued 5,562,000 common shares on conversion of $22,249,000 of 12% debentures. A further 101,000 common shares were issued, while 81,400 were cancelled, under the Employee Share Purchase Plan.

Vencap had 8,816,394 common shares outstanding at March 31, 1995, for a market capitalization of $50,694,000, as compared to 3,234,540 shares with a market capitalization of $16,173,000 at March 31, 1994.

Vencap's shares out-performed the comparable Financial Management Sector, at least in part on the basis of renewed expectations of a possible, positive arrangement being reached with the company's long-term debt lender, the Province of Alberta.

Vencap's shares normally trade on a basis of a multiple of fully diluted net asset value per share. At March 31, 1995, the shares were trading at .9 times, or a 10% discount from, fully diluted net asset value of $6.34 per share. This net asset value incorporates the conservative accounting policies followed by the company regarding the carrying value of the venture investment portfolio (Note 1).

Summary Financial Performance Fully diluted net asset value per common share was $6.34 at March 31, 1995 (1994 - $5.95), an increase of 6.6%




The Financial Management Sector of the TSE 300 comprises the five largest financial management companies in Canada.

for the year. An analysis of the $.39 increase reflects the following factors that contributed to the increase:

| | |
|---|---|
| > net income for the year | $.09 |
| > dividend paid in the year | (.05) |
| > debentures redeemed for cash rather than converted | .36 |
| > cancellation of 81,400 shares under Normal Course Issuer Bid | .01 |
| > Issuance of 18,700 Class B shares | (.02) |
| | $.39 |

The single largest contributor to increasing fully diluted net asset value was the fact that $9,635,000 of convertible debentures were redeemed for cash in June, 1994, rather than converted into shares with a higher net asset value.

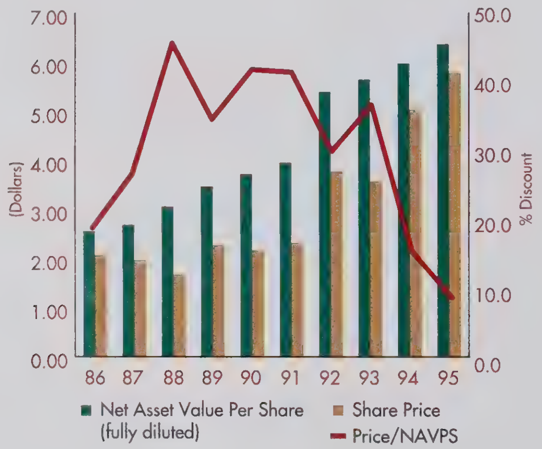
Fully diluted earnings per share were $.12, down from $.18 for the year earlier, even though net income of $1,159,000 for the year ended March 31, 1995, was up 60.5% compared to $722,000 net income for the year ended March 31, 1994. The lower fully diluted earnings per share is due to the additional shares issued on the conversion of debentures.

**Return on Investment**

| (Dollars) | 1984* | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Initial outlay October, 1983 (50 common shares and $500 convertible debenture) | $550 | | | | | | | | | | | |
| Cash receipts | | | | | | | | | | | | |
| interest | $13 | $60 | $60 | $60 | $60 | $60 | $60 | $60.00 | $60.00 | $60.00 | $60.00 | $29.26 |
| dividends | | 0 | 0 | 0 | 0 | 0 | 0 | $ 3.50 | $ 4.50 | $ 4.50 | $ 6.00 | $ 6.00 |
| Market value March 31, 1995 (175 common shares) | | | | | | | | | | | | $1,006.25 |
| Rate of return on original investment, compounded annually | | | | | | | | | | | | 14.4% |

* Partial Year

**Assumes conversion of debenture




Operations Analysis Vencap has three principal assets: its people, its available capital and its investment portfolio.

All three are intertwined and of vital importance to executing the company's strategy. Two of these asset groups are assigned a value in the company's records. The third is charged with the responsibility of creating additional value within the other two categories.

There is no value reflected on Vencap's balance sheet for the team of experienced and dedicated professionals that has been built since the company's beginnings. Of key importance is their experience working together as a team; over the 12-year life of the company, the six senior officers have accumulated 64 years of active investing as a team, out of the total of 72 years. The experience of working as a team through numerous circumstances is invaluable in facing any and all future situations.

The company realizes that there is always the chance of an unexpected breakup of the team and, therefore, the constant need to train potential successors for each of its senior officers. The company's Board of Directors discusses succession plans with the President and Chief Executive Officer each year to ensure that progress is being made in further implementation of succession training.

Vencap has continually had available capital in the range of $168,000,000 to $192,900,000 over the past five years, even while making $128,000,000 of venture investments during the same period.

Other private equity investors are aware that Vencap has significant cash available and, coupled with our reputation as solid value-added investors, will show Vencap investment opportunities we might not otherwise be asked to participate in.

The available capital, invested in the highest quality marketable securities, provides a major source of earnings and cash flow each year, and allows the company to carry on its investment activities within its current infrastructure.

The available capital, $168,000,000 at March 31, 1995, does not reflect a net position after considera-

tion of the company's long-term debt position. The company has available capital because it is advantageous; to this point in time we have been able to earn a better return on the funds than the interest cost charged for the funds, and principal repayments on the Province of Alberta loan are currently negligible at $1,000 per year.

Management recognizes that, commencing in 2003, the demands for principal repayment change dramatically, to $15,000,000 per year. Of the available choices for preparing for the burden of significant debt repayments, we have chosen to pursue a complete settlement with the Province.

During the past year, Vencap has been in regular communication with the Province of Alberta to determine whether the Province would entertain repayment of the debt on economic terms. Vencap made an initial offer to the Province in April, 1995. Discussions with the Province, now involving a third party, are ongoing. Vencap's Board of Directors has engaged independent counsel and financial advisors to assist them in the ongoing discussions. The directors are diligently discharging their responsibility of determining what course of action is in the best interest of all Vencap's shareholders.

| | |
|---|---|
| Initial capitalization | $ 244.0 |
| Cumulative venture investments excluding commitments | (265.7) |
| Cash from venture dispositions & return of capital | 124.2 |
| Cash from dividends & interest on venture investments | 30.7 |
| Cash from dividends & interest on marketable securities (net) | 34.8 |
| Marketable securities at March 31, 1995 | **$168.0** |
| (Millions) | |

Vencap's investment portfolio consisted of 37 companies at March 31, 1995, with a total of $113,268,000 invested.

Vencap's team reviewed 482 new projects during the year ended March 31, 1995, and from those selected six companies for investment.

| | |
|---|---|
| **Coinstar, Inc.** | **$ 3.2 million** |
| **The ESYS Corporation** | **.5 million** |
| **Fletcher's Fine Foods Ltd.** | **3.9 million** |
| **Nextwave Design Automation, Inc.** | **2.1 million** |
| **Olympic Venture Partners III** | **.4 million** |
| **Thermatrix, Inc.** | **4.1 million** |
| | **$14.2 million** |

These investments are described in greater detail on pages 6 and 7 of the Annual Report.

The year was particularly busy in terms of responding to the issues that arose within the existing affiliate group. Fifteen companies received additional funding during the year, totalling $10,646,000, for expansion of their operations. A further nine companies were either sold or impaired. This activity only partially reflects the efforts made to increase the value of each affiliate company.

Vencap is proud of its relationships with its affiliates, built on the principles of being disciplined and proactive, fair and enthusiastic. Many affiliates made major positive strides during the year which are not reflected in the current carrying value of the portfolio. As described in Note 1 of our financial statements, accounting principles in Canada allow Vencap to adjust up or down the carrying value of any publicly traded investment based on its trading price. However, our conservative interpretation of the accounting principles for privately owned affiliates only allows for an upward adjustment in value at the time that a new investor participates in a new round of financing at a higher price. When an affiliate successfully obtains a higher level of sales or profit or a stronger balance sheet, without utilizing outside funding, that value is not reflected in our carrying value of the affiliate company.

A financial highlight of the year was the sale of Lakeside Farm Industries, realizing a profit of $7.4 million and a 11.1% rate of return over the nine years we were associated with Lakeside. The success of Lakeside is a credit to its management, the Vencap team, our co-investors, and the close working relationship maintained by this group over the years. We wish the management at Lakeside many future successes with the company's new partners.

| Venture Exit Activity | 1995 | 1994 |
|---|---|---|
| Number of sales | 5 | 4 |
| Proceeds on disposition | 21.7 | 11.6 |
| Cost | 15.3 | 7.6 |
| Gains (losses) | 6.4 | 4.0 |
| Number of impaired investments | 4 | 6 |
| Permanent impairments | | |
| Partial | (8.5) | (6.8) |
| Full | (2.9) | (9.8) |
| | (11.4) | (16.6) |

(Millions)

A part of the discipline followed by Vencap investment professionals is reviewing the progress of each affiliate, at pre-set intervals, using established techniques to measure progress against plans as well as determine future expectations under varying scenarios.

This discipline also assists in determining which companies are lagging, and whether any of those have reached a state where our investment is no longer recoverable. Initially, a reserve may be established through the Allowance for Net Unrealized Gains (Losses) on Venture Investments in the Statement of Changes in Shareholders' Equity. When the investment is no longer recoverable, any Allowance against that investment is reversed and a Permanent Impairment is established against income in the Statement of Income.

Value for the shareholders can only be built if you invest wisely, and subsequently work diligently at adding value to the affiliate. This cycle requires capital to be available to complete deals and experienced professionals to negotiate those deals, build value throughout the hold period, and develop exit opportunities that reflect the value added to the affiliate. The ongoing valuation of each affiliate is fraught with risk and ultimately determinable only when the asset is sold.

Income and Cash Flow Analysis The stabilizing factor to Vencap's income and cash flow is the funds generated by the marketable securities portfolio. Vencap manages these funds internally, under a very conservative investment philosophy which emphasizes the highest credit quality and holding the investment to maturity, over a period of three to five years. The portfolio's average yield was approximately 7.0% for the past year. The cash flow generated allows Vencap to operate in its current fashion.

Operating expenses declined in the year ended March 31, 1995, to $4.9 million, down from $5.6 million in the prior year. The principal reason for the decline is a lower level of non-recoverable expenditures on affiliate due diligence in the current year.

The less predictable portion of Vencap's cash flow is that portion derived from the venture investment activity. In each year, the level of interest, dividends, gains or losses on disposal, and permanent impairments can vary significantly. The current year was no exception; the $7.4 million gain on the sale of Lakeside more than offset the $3.4 million decline in interest and dividend income received in the current year, while permanent impairments declined by $5.2 million on a year-over-year basis.

The interest expense on the Province of Alberta loan is determined as a percentage of operating income. For the year ended March 31, 1995, the Province's interest rose by $.5 million to $1.5 million which, coupled with the unrealized increase in the value of the options held by the Province provided the Province with an over-all return of 2.3% for the year.

Vencap continues to have tax losses of approximately $13 million available to offset possible future tax income. The company is in negotiations with Revenue Canada on reassessments for prior years, but does not expect to have cash taxes payable as a result.

The net cash flow generated from all operating activities is typically re-invested in other venture investments or marketable securities. The major exception in the past year occurred in June, 1994, when the company utilized $9.6 million to redeem a portion of its outstanding 12% convertible debentures.

Future Operations Early in the year, Vencap entered into preliminary discussions with the Province to determine whether there were grounds for negotiating a settlement on early repayment of the loan. A major issue was, and continues to be, that the same low rate of return that causes the Province to want to have the funds returned is of benefit to and therefore has value to, Vencap and its shareholders. Subsequent to the year-end, Vencap made an offer to the Province of Alberta for early repayment of the loan and surrender of its share options. Negotiations continue with the Province and, at its request, with a third party. If and when any settlement is reached, Vencap may choose to settle the transaction by liquidating its marketable securities portfolio. In the event that the marketable securities portfolio is liquidated, management is confident that operations can be adjusted accordingly.

There is a constantly increasing supply of capital being made available for investment in venture opportunities in Canada and the U.S. Our analysis indicates that the majority of these funds are concentrated on either early stage technology opportunities or transactions requiring substantial funds, typically greater than $25 million.

The increasing supply of capital creates both opportunity and risk for Vencap. The obvious risk is the increased competition for good investments, which can lead to a vicious cycle of higher pricing and lower over-all returns on investments. We manage this risk by focussing on a geographic territory - western Canada and the northwestern U.S. - which we believe is not yet overserved, by moving to a level of investment that is less competitive and within our expertise, and by being disciplined as to the pricing of deals.

An offsetting opportunity which arises from the increasing supply of capital is the chance to attract other parties to invest in one of our existing affiliates, either directly or by purchasing our position.

A less obvious risk associated with the increased supply of capital is the need for experienced personnel to manage the capital. This places additional pressure on Vencap's management to ensure that we are providing a strong team environment, focussing on common individual and team goals, and to continuously ensure that our people have the opportunity to attain competitive long-term financial rewards commensurate with performance.

Vencap operates in an industry where the dynamics are constantly shifting. Changes in industry dynamics, together with changes in the dynamics in our relationship with our existing long-term lender, are moving Vencap into the next evolution of its strategic and operating plans. With change comes opportunity and, properly managed, increased benefit for our shareholders.

## Management's reporting responsibility

The accompanying financial statements of Vencap Equities Alberta Ltd. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a comprehensive system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee, consisting solely of outside directors. The Audit Committee reviews the corporation's annual financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the Audit Committee, with and without management being present.

The financial statements have been examined by the shareholders' auditors, Price Waterhouse, Chartered Accountants, and their report is presented below.

R.A. (Sandy) Slator
President and
Chief Executive Officer

Ian T. Morris
Senior Vice President and
Chief Financial Officer

## Auditors' report to the Shareholders of Vencap Equities Alberta Ltd.

We have audited the balance sheet of Vencap Equities Alberta Ltd. as at March 31,1995 and the statements of income, changes in financial position and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31,1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Price Waterhouse
Chartered Accountants
Edmonton, Alberta
May 16, 1995

# balance sheet

[thousands]

*Assets*

*Marketable securities are the funds available for Vencap to invest in venture capital opportunities. These funds are invested in bonds, term deposits and preferred shares with minimal risk exposure.*

*Venture investments reflects the cost to Vencap adjusted for certain potential unrealized gains, losses and accumulated permanent impairments, as described in Note 1. The venture investment portfolio is detailed on pages 4 and 5 of this Annual Report. The major risk is in the venture portfolio.*

| | March 31 1995 | March 31 1994 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 394 | $ 4,703 |
| Accounts receivable | 2,167 | 2,064 |
| Marketable securities maturing within one year (Note 2) | 58,538 | 45,115 |
| | 61,099 | 51,882 |
| Marketable securities maturing after one year (Note 2) | 109,430 | 126,633 |
| Venture investments (Note 3) | 109,268 | 113,543 |
| Other assets | 2,363 | 1,972 |
| | $282,160 | $294,030 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities | | |
| Accounts payable | $ 1,461 | $ 2,337 |
| Accrued interest payable | 1,238 | 2,983 |
| | 2,699 | 5,320 |
| Long-term debt | | |
| Convertible debentures (Note 4) | – | 32,344 |
| Province of Alberta loan (Note 5) | 199,989 | 199,990 |
| | 199,989 | 232,334 |
| Shareholders' equity | 79,472 | 56,376 |
| | $282,160 | $294,030 |
| Net asset value per common share (Note 8) | | |
| Basic | $ 8.68 | $ 16.15 |
| Fully diluted | $ 6.34 | $ 5.95 |

Approved on Behalf of the Board

Director

Director

*Liabilities and shareholders' equity*

*The company has minimal current liabilities.*

*Long-term debt relates to the original public offering. The 12% convertible debentures, issued as part of the original common share and convertible debenture units, were redeemed as at June 30, 1994. The Province of Alberta loan is reduced by $1,000 each year until 2002, after which annual payments of $15,000,000 commence. Interest on this loan is paid annually, calculated as approximately 50% of pre-tax income.*

*Shareholders' equity represents the net asset value accumulating on behalf of the shareholders. The company began in 1983 with $4,000,000 of share capital. Equity at year-end of $79,472,000 is an accumulation of share capital, unrealized losses and earnings adjusted for other capital distributions, including dividends.*

# statement of income

[thousands]

*This statement reflects income and expenses for the year. Income is derived from two sources – venture investments and marketable securities.*

*A sale of a venture investment results in either a gain or a loss. Certain investments pay interest or dividend income. Since 1983, Vencap has earned $30.7 million in interest and dividend income from venture investments. A permanent impairment is recorded to reflect an irreversible loss in the value of a venture investment without the actual sale of the investment.*

| | Year Ended March 31 1995 | 1994 |
|---|---|---|
| **Venture investments** | | |
| Interest and dividend income | $ 2,113 | $ 5,471 |
| Gains on disposition | 6,369 | 3,977 |
| Permanent impairment of value | (11,399) | (16,627) |
| **Marketable securities** | | |
| Interest and dividend income | 11,667 | 11,259 |
| Gains on disposition | 52 | 7,440 |
| | 8,802 | 11,520 |
| **Expenses** | | |
| Interest on Province of Alberta loan | 1,456 | 951 |
| Debenture | 956 | 4,046 |
| Operating | 4,934 | 5,572 |
| | 7,346 | 10,569 |
| Income before income taxes | 1,456 | 951 |
| Provision for income taxes (Note 7) | 297 | 229 |
| **Net income** | $ 1,159 | $ 722 |
| **Earnings per common share** (Note 8) | | |
| Basic | $ 0.14 | $ 0.20 |
| Fully diluted | $ 0.12 | $ 0.18 |

*Income from marketable securities is principally interest or dividends, although a gain or loss may occur if a security is sold before its maturity.*

*Expenses represent the cost to Vencap of doing business and include the amount that Vencap will pay as interest on its loan from the Province of Alberta. Since 1983, Vencap has paid $64.7 million in interest to the province.*

*Net income is added to retained earnings within the "Statement of Changes in Shareholders' Equity".*

# statement of changes in financial position

[thousands]

*While the "Balance Sheet" shows the company's financial position at year-end and the "Statement of Income" shows the net of revenues less expenses, the "Statement of Changes in Financial Position" illustrates how the financial resources of the company were generated and used, and the closing cash position of the company.*

*Cash provided by (used for) operations reflects net income, adjusted for changes that did not involve the outlay of operating funds.*

| | Year Ended March 31 1995 | 1994 |
|---|---|---|
| **Cash provided by (used for)** | | |
| **Operations** | | |
| Net income | $ 1,159 | $ 722 |
| Depreciation | 87 | 110 |
| Venture investments | | |
| Gains on disposition | (6,369) | (3,977) |
| Permanent impairment of value | 11,399 | 16,627 |
| Marketable securities | | |
| Gains on disposition | (52) | (7,440) |
| | 6,224 | 6,042 |
| Net changes in working capital balances | (3,202) | (1,470) |
| | 3,022 | 4,572 |
| **Financing** | | |
| Share capital | 399 | (861) |
| Debentures | (10,095) | (506) |
| Dividends | (710) | (435) |
| Province of Alberta loan | (1) | (1) |
| | (10,407) | (1,803) |
| **Investments** | | |
| Venture investments | | |
| Investment | (24,799) | (22,106) |
| Return of capital | 2,354 | 1,151 |
| Proceeds on disposition | 21,690 | 11,617 |
| Marketable securities | 3,831 | 11,127 |
| | 3,076 | 1,789 |
| Increase (decrease) in cash | (4,309) | 4,558 |
| Cash, beginning of year | 4,703 | 145 |
| **Cash, end of year** | $ 394 | $ 4,703 |

*Cash provided by (used for) financing relates specifically to changes in Vencap's financial structure of common shares, convertible debentures and the Province of Alberta loan. These items include events such as the purchase and cancellation of both common shares and debentures, and the redemption of convertible debentures as at June 30, 1994.*

*Cash provided by (used for) investments reflects the cash inflows and outflows relating to both venture investments and marketable securities.*

# statement of changes in shareholders' equity

[thousands]

*This statement records changes in shareholders' equity over a two-year period.*

*The inclusion of net income within shareholders' equity illustrates that earnings accumulated over time accrue to the shareholders.*

*The allowance represents the risk that Vencap believes to be associated with its venture investment portfolio at March 31, 1995.*

*Share account balances comprise the capital originally committed by the shareholders, as well as any subsequent transactions between Vencap and its shareholders.*

| | Class B Preferred Shares | Common Shares | Retained Earnings | Allowance For Net Unrealized Gains (Losses) On Venture Investments | Total |
|---|---|---|---|---|---|
| Balance, March 31, 1993 | | | | | |
| As previously reported | $ 490 | $ 3,719 | $56,878 | $(8,500) | $52,587 |
| Prior period adjustment (Note 9) | | | | | |
| Interest on income tax reassessment | – | – | (296) | – | (296) |
| Province of Alberta interest adjustment | – | – | 148 | – | 148 |
| | – | – | (148) | – | (148) |
| As restated | 490 | 3,719 | 56,730 | (8,500) | 52,439 |
| Net income for the year (Note 9) | – | – | 722 | – | 722 |
| Dividends ($0.12 per common share) | – | – | (435) | – | (435) |
| Decrease in allowance for net unrealized gains (losses) on venture investments | – | – | – | 4,500 | 4,500 |
| Share transactions (Note 6) | 251 | (205) | (896) | – | (850) |
| Balance, March 31, 1994 | 741 | 3,514 | 56,121 | (4,000) | 56,376 |
| Net income for the year (Note 9) | – | – | 1,159 | – | 1,159 |
| Dividends ($0.12 per common share) | – | – | (710) | – | (710) |
| Share transactions (Note 6) | 480 | 22,334 | (167) | – | 22,647 |
| Balance, March 31, 1995 | $1,221 | $25,848 | $56,403 | $(4,000) | $79,472 |

# notes to financial statements

[march 31,1995]

## 1. Summary of significant accounting policies

### Marketable securities

Marketable securities, consisting of bonds, short-term securities and preferred shares, are recorded at amortized cost.

Gains and losses on disposal of securities, as well as amortization of premiums and discounts, are included in income in the period of realization.

Marketable securities denominated in foreign currencies are translated at rates in effect at the balance sheet date. Unrealized foreign currency gains and losses on long-term marketable securities are recorded as a deferred liability and amortized over the remaining term to maturity of the related security.

### Venture investments

Venture investments in companies which are traded on a recognized exchange are recorded at values based on quoted market prices at the balance sheet date.

Venture investments in privately held companies are initially recorded at cost. These investments continue to be carried at cost unless a significant subsequent round of financing occurs at a higher or lower transaction price, or unless there exists persuasive evidence of a decrease in value as indicated by the assessment of the financial condition of the investment based on operational results, forecasts and other developments since acquisition.

Each investment is reviewed by the Investment Valuation Committee on a quarterly basis to determine its carrying value. The valuation process includes inherent uncertainties. The values determined might differ from values that will be realized on actual disposition of the investments.

Realized gains or losses on disposition of venture investments, together with losses incurred when the value of investments has been permanently impaired, are recorded in the statement of income. Unrealized gains or losses in the value of investments, net of applicable interest on the Province of Alberta loan and income taxes, are reflected as a separate element in the statement of changes in shareholders' equity.

Events occurring during the holding period of a particular investment may result in the right to elect a majority of the investee's Board of Directors. A parent-subsidiary relationship does not exist because such rights may be waived or rectified and are not intended to continue. The company has clearly demonstrated its intention to dispose of these investments in due course. Accordingly, the company does not consolidate its accounts with those investments where it holds greater than 50% of the voting rights.

## 2. Marketable securities [thousands]

Maturing within one year:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Government bonds | $ 2,549 | $ 2,594 | $ – | $ – |
| Term deposits | 55,989 | 55,989 | 45,115 | 45,115 |
| | $ 58,538 | $ 58,583 | $ 45,115 | $ 45,115 |

Maturing after one year:

| | 1995 | | 1994 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Government bonds | $ 41,981 | $ 41,137 | $ 56,530 | $ 56,740 |
| Preferred shares | 67,449 | 64,631 | 70,103 | 70,628 |
| | $ 109,430 | $ 105,768 | $ 126,633 | $ 127,368 |

## 3. Venture investments [thousands]

Venture investments are held in the following instruments:

| | 1995 | 1994 |
|---|---|---|
| Preferred shares | $ 57,970 | $ 56,306 |
| Common shares | 50,616 | 55,101 |
| Loans | 4,682 | 6,136 |
| | 113,268 | 117,543 |
| Allowance for net unrealized gains (losses) | (4,000) | (4,000) |
| | $ 109,268 | $ 113,543 |

The majority of the preferred shares include rights to convert to common shares.

During the year, venture investments changed as follows:

| | 1995 | 1994 |
|---|---|---|
| Balance, beginning of year | $ 113,543 | $ 112,355 |
| New investments | 24,799 | 22,106 |
| Return of capital | (2,354) | (1,151) |
| Dispositions, at cost | (15,321) | (7,640) |
| Permanent impairment of value | (11,399) | (16,627) |
| | (4,275) | (3,312) |
| Decrease in | | |
| Allowance for net unrealized gains (losses) | – | 4,500 |
| | (4,275) | 1,188 |
| Balance, end of year | $ 109,268 | $ 113,543 |

## 4. Convertible debentures [thousands]

| | 1995 | 1994 |
|---|---|---|
| Balance, beginning of year | $ 32,344 | $ 32,862 |
| Conversion into common shares | (22,249) | (12) |
| Purchased and cancelled under | | |
| Normal Course Issuer Bids | (460) | (506) |
| Redemption | (9,635) | – |
| Balance, end of year | $ – | $ 32,344 |

Effective June 30, 1994, the company exercised its right to redeem all outstanding 12% convertible debentures.

$22,249,000 debentures were converted into 5,562,000 common shares at the option of the holders. The remaining $9,635,000 debentures were redeemed on June 30, 1994.

Prior to the redemption, $460,000 debentures were purchased for cancellation under the terms of a Normal Course Issuer Bid. The premium of $49,000 (1994 - $136,000) on purchase of the debentures has been expensed.

## 5. Province of Alberta loan

The Province of Alberta loan is to be repaid in instalments of $1,000 each year through to 2002 and $15,000,000 in each of the years 2003 to 2012 inclusive, with the balance due in 2013.

Interest on the loan is calculated as a varying percentage of the company's net income for each year. Under the terms of the loan agreement, "net income" is defined as net income determined in accordance with generally accepted accounting principles but before deduction of income taxes, interest on the Province of Alberta loan, and interest on any debt subordinated to the provincial loan. Prior period adjustments are taken into account in calculating interest payable to the Province. The percentage of net income payable as interest varies according to a formula based on the amount and type of debt and equity capitalization of the company. The loan may be prepaid with the consent of the Province. Interest continues to be payable for twenty years following repayment in full of the principal amount, at the rate of 10% of net income, as defined above.

The loan is secured by a debenture, which provides for a fixed charge in favour of the Province on securities owned and to be owned by the company, having an aggregate carrying value from time to time of $175,000,000. The debenture also provides for a floating charge on all the company's assets and an assignment of its receivables. Securities owned by the company will be held by a Canadian chartered bank as depository. The company, subject to its obligation to maintain securities on deposit with the depository in the aggregate value described above, may freely deal with these securities in the ordinary course of business.

The Province of Alberta has an option to purchase up to 4,000,000 Special Shares at a price of $1.00 per share. Any number of Special Shares, if issued, would have 20% of the total number of votes attaching to all shares eligible to vote at meetings of the shareholders.

## 6. Share capital

**Authorized**

Unlimited number of Class A preferred shares

Unlimited number of Class B preferred shares

Unlimited number of Special Shares

Unlimited number of common shares

| Issued | Class B Preferred Shares | | Common Shares | |
|---|---|---|---|---|
| | Number of Shares | Amount (Thousands) | Number of Shares | Amount (Thousands) |
| **Balance at March 31, 1993** | 22,400 | $ 490 | 3,465,865 | $ 3,719 |
| Issuance of Class B shares | 8,000 | 362 | – | – |
| Redemption of Class B shares | (1,500) | (39) | – | – |
| Cancellation under Issuer Bid | – | – | (267,200) | (289) |
| Conversion of Class B shares | (3,300) | (72) | 33,000 | 72 |
| Conversion of debentures | – | – | 2,875 | 12 |
| | 3,200 | 251 | (231,325) | (205) |
| **Balance at March 31, 1994** | 25,600 | 741 | 3,234,540 | 3,514 |
| Issuance of Class B shares | 20,500 | 836 | – | – |
| Redemption of Class B shares | (1,800) | (59) | – | – |
| Cancellation under Issuer Bid | – | – | (81,400) | (212) |
| Conversion of Class B shares | (10,100) | (297) | 101,000 | 297 |
| Conversion of debentures | – | – | 5,562,254 | 22,249 |
| | 8,600 | 480 | 5,581,854 | 22,334 |
| **Balance at March 31, 1995** | 34,200 | $ 1,221 | 8,816,394 | $ 25,848 |

The company has designated 50,000 non-voting Class B preferred shares for purchase by employees, which may be granted by the Board of Directors at prices set in compliance with Alberta Securities Commission requirements. Each share can be converted into 10 common shares and is entitled to receive dividends equal to ten times the amount of cash dividends declared on each common share.

The company provides interest-free loans to employees to facilitate their purchase of Class B preferred shares. The loans are secured by demand promissory notes and the related shares. Repayment terms are the earlier of demand by the company, 10 years from the date of issue, sale of common shares received upon conversion, or termination of employment. Loans are reduced by 75% of any dividends paid during the year and by any other repayments. Employee share purchase loans in the amount of $1,646,000 (1994 -$949,000) are recorded in other assets. At March 31, 1995, 2,500 Class B preferred shares had been granted to employees but not yet issued. If these shares had been issued at March 31, 1995, employee share purchase loans would increase by $129,000.

Common shares were purchased under the terms of a Normal Course Issuer Bid. The excess of the purchase price over carrying value, in the amount of $167,000 (1994 -$895,000), was charged to retained earnings.

## 7. Income taxes [thousands]

The provision for income taxes differs from the amount calculated by applying the combined federal and provincial income tax rate to income before income taxes. The differences are as follows:

| | 1995 | 1994 |
|---|---|---|
| Income before income taxes | $ 1,456 | $ 951 |
| Combined federal and provincial income tax rate | 44.365% | 44.34% |
| Income taxes calculated at combined rate | $ 646 | $ 421 |
| Differences: | | |
| Non-taxable dividend income | (2,305) | (3,730) |
| Timing differences in accounting-tax treatment | 4,772 | 3,733 |
| Application of prior years' losses | (2,525) | – |
| Items taxed at other than full rates | (484) | (374) |
| Tax on large corporations | 193 | 179 |
| Provision for income taxes | $ 297 | $ 229 |

The company has non-capital losses of approximately $12,600,000 available to offset future taxable income, which expire in the years 1999 through 2001. In addition, the company has allowable capital losses of approximately $500,000 which may be carried forward indefinitely to reduce future taxable capital gains. The potential benefit of these losses has not been recognized in the financial statements.

## 8. Earnings and net asset value per common share

The calculation of basic earnings per share is based on the weighted average number of common and Class B preferred shares outstanding during the year.

Fully diluted earnings per share reflects the dilutive impact of the Province of Alberta Special Share option (Note 5), as if such event had occurred at the beginning of the year.

Basic net asset value per share is calculated based on the number of common and Class B preferred shares outstanding at the end of the year. The calculation of fully diluted net asset value per share reflects the dilutive effect of the Province of Alberta Special Share option.

## 9. Prior period adjustment

The company has been reassessed for the taxation years 1989 through 1992. The reassessments assume dispositions of venture investments are business income for income tax purposes, rather than capital transactions as filed by the company. No income taxes are payable as the company elected to carry available losses back to offset taxable income arising from the reassessments. The company has been assessed interest of $479,000 in the current year in respect of the taxes which were reassessed prior to application of the losses. The company is appealing these reassessments.

As a result, $296,000 of interest has been charged against retained earnings at April 1, 1993, for the period 1989 through 1993. For the year ended March 31, 1995, $44,000, (1994 - $139,000) has been expensed.

## 10. Contingencies

Amounts totalling $715,000 remain in escrow from prior years' dispositions of venture investments. Future amounts received by the company, net of related costs, will be included in income when the escrow conditions are satisfied.

The company is party to disputes and lawsuits in the ordinary course of business. Management is confident that any ultimate liability arising from these matters will have no material impact on the financial statements. Any benefit arising is currently indeterminable.

The company is currently under discussion for settlement with taxation authorities on the reassessments of taxation years 1989 through 1992 (Note 9). On settlement, some amount of interest may be recoverable, which would be recorded in the periods to which it relates. The amount to be recovered, if any, cannot be reasonably estimated.

## 11. Financial statements

Certain of the 1994 figures have been reclassified to conform with the financial statement presentation adopted in 1995.

*1980, 10180-101 Street, Edmonton, Alberta T5J 3S4*
*Telephone: (403) 420-1171 Facsimile: (403) 429-2451*
*2000, 800 - 5 Avenue SW, Calgary, Alberta T2P 3T6*
*Telephone: (403) 237-8101 Facsimile: (403) 264-0324*

# vencap directory

R. A. (Sandy) Slator
President
Chief Executive Officer

Oleh S. Hnatiuk *
Senior Vice President,
Investments

Ian T. Morris
Senior Vice President
Chief Financial Officer
Secretary

F. W. (Woody) Kuehn *
Vice President

W. R. (Bill) McKenzie
Vice President

David E. Stitt
Vice President

Mark T. Broussard
Investment Manager

Dr. Bill Cochrane *
Medical Technologies
Consultant

Lane Kranenburg *
Investment Manager

Frank L. Stack *
Investment Manager

Janet G. Goodwin
Manager,
Investor Relations

* located in Calgary office

**Auditors**

Price Waterhouse
Chartered Accountants

**Bankers**

Royal Bank of Canada

**Board of Directors**

John E. Barry
President
JEB Investments Ltd.

Don Carlson
Chairman of the Board
Vencap Equities Alberta Ltd.

J. Gregory Greenough,
F.C.A.
President
Maclab Enterprises

J.H. (Jack) Nodwell
Chief Executive Officer
Foremost Industries Inc.

R.A. (Sandy) Slator
President
Chief Executive Officer
Vencap Equities Alberta Ltd.

John B. Zaozirny, Q.C.
Counsel
McCarthy Tétrault
Barristers and Solicitors

**Committees**

Investment Valuation
John E. Barry, Chairman
Don Carlson
J. Gregory Greenough

Audit
J. Gregory Greenough,
Chairman
John E. Barry
Don Carlson

Human Resources &
Compensation
J.H. (Jack) Nodwell,
Chairman
Don Carlson
J. Gregory Greenough

Shareholders with changes of address or seeking information or assistance concerning their holdings should contact Vencap's Registrar and Transfer Agent:
The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1
Telephone: 1-800-387-0825

Investor Information
Shareholders and other interested people seeking assistance or information about Vencap are invited to contact Ian T. Morris, Senior Vice President and Chief Financial Officer, or Janet G. Goodwin, Manager, Investor Relations, at
1980, 10180 - 101 Street
Edmonton, Alberta
T5J 3S4
Telephone: (403) 420-1171
Facsimile: (403) 429-2451

*Vencap Equities Alberta Ltd. is incorporated under the laws of The Province of Alberta. Common shares of the corporation are listed on The Alberta Stock Exchange, symbol VCE. Fiscal year-end: March 31. Interim results: June 30, Sept. 30, Dec. 31.*

Design: Smith & Associates Printed: Sundog Printing

*Vencap is a value-added private equity investor, operating in western Canada, the Pacific Northwest and the Rocky Mountain region of the United States.*

*We are in the business of investing wisely and managing well – adding value to the companies in which we invest to enable their success and a profitable return on investment for Vencap.*

*Vencap has invested $265.7 million of equity capital to 79 companies since 1983.*

vencap


Vencap Equities Alberta Ltd.
1980, 10180 - 101 Street
Edmonton, Alberta T5J 3S4
Telephone: 403-420-1171
Facsimile: 403-429-2451



Printed in Canada